



Testimony of
Griffin Hospital President Patrick Charmel
to the
Finance, Revenue and Bonding Committee
Monday, March 22, 2010

SB 484, an Act Concerning the Governor's Revenue Plan

We appreciate that the Governor and legislature need to take action on the current budget deficit, but cutting hospital funding is not the way to do it. Griffin Hospital joins the Connecticut Hospital Association and its member hospitals in strongly opposing the proposed 3 ¼ percent Hospital User Tax included in Section 10 of SB 484, An Act Concerning The Governor's Revenue Plan.

Connecticut hospitals are already bearing a huge underfunding burden. In 2008, before the devastating impact of the recession was fully felt, the shortfall to Connecticut hospitals in state funding for the Medicaid and SAGA programs was over \$300 million.

As Connecticut's residents have lost jobs and employer-paid health insurance coverage, the Medicaid and SAGA populations have increased significantly, as have the uninsured. A recently released study by the Robert Wood Johnson Foundation revealed that the number of middle-class people in Connecticut who had health insurance through an employer dropped 16.8 percent between the height of economic prosperity in 1999-2000 and the recession in 2008. Nationally, the decrease was 6.6 percent. The study also showed Connecticut with a greater increase in the percentage of middle-income residents, those with a household income of \$45,000 to \$85,000, in government-run insurance over that period; an 8.3 percent increase, compared with 3.9 percent nationally – not including Medicare for people 65 and older.

These factors have reduced demand for hospital services as evidenced by year over year decline in patient activity experienced by many Connecticut hospitals during the first half of FY 2010 resulting in revenue shortfall and deteriorating profitability. To compensate for the unexpected drop in revenue and to avoid a loss for the year, CT hospitals have been forced to reduce operating expense. Over the past two years the operating expense reductions have included downsizing through hiring freezes and/or layoffs, not providing general wage increases to employees and freezing employee Defined Benefit Pension Plans and/or not making a hospital contribution to Defined Benefit Contribution Plans to match the employee contribution.

A tax on healthcare at this time in this environment would be counterproductive. Increasing the cost of healthcare in the face of the current daunting issues of affordability and access simply does not make sense. History instructs us on the disruptive nature of a Hospital User Tax. During the decade

when this tax was in force, we learned the following: 1) not all tax dollars will be returned to hospitals; from 1994 to 1999, in addition to retaining the entire increased federal match, the state kept another \$106 million of the tax funds that were supposed to be returned to hospitals; 2) the redistribution of the tax is very volatile – winners and losers change every year; and 3) state budget goals trump the needs of hospitals and patients.

During the 1990s, prior to its repeal, the Hospital User Tax was constantly changed. The driving force for each change was getting or keeping federal dollars. Initially, the tax was intended as an off-budget pool and assessment, which then morphed into two separate taxes in response to a federal lawsuit. At first, the redistribution formula included all government and uninsured shortfalls; it later excluded Medicare and Medicaid inpatient shortfalls. And while hospitals originally were required to tell every patient the tax amount, a further change prohibited hospitals from telling anyone the tax existed at all.

Not much has changed since the last time this onerous tax was imposed. A Hospital User Tax must still be redistributive – in other words, some hospitals will get more than they put in while other will get less. A Connecticut Hospital Association analysis indicates that more than half of the hospitals in the state will get less under the new proposal.

Congress, as part of the American Recovery and Reinvestment Act, provided Medicaid relief to the states in the form of an increase in the federal match rate. The expressed purpose of the relief was to prevent cuts to Medicaid. Connecticut's relief will total \$1.74 billion over the course of 27 months, resulting from an increase in the match rate from 50 percent to 61.59 percent.

The \$1.74 billion in additional federal Medicaid funding is enough to cover 100 percent of the cost of the increase in Medicaid and SAGA enrollment that has or will occur in state fiscal years 2009, 2010, and 2011, and also provide a nearly \$300 million contribution to the General Fund. Sadly, not one cent of that extra \$1.74 billion is being used to help hospitals cover the increased burden they are experiencing because of the combined 18 percent increase in Medicaid and SAGA enrollment.

Instead of a Hospital User Tax, let's use the enhanced federal Medicaid match for the purpose it was intended: to maintain eligibility and coverage, and make another down payment on bringing provider rates closer to covering the cost of care. Let's, in fact, help those who need it most and support those providing the help, while at the same time contributing significantly to balancing the state budget.

Hospital finances are fragile enough. Further reduction will jeopardize the ability of Connecticut hospitals to maintain their workforces which will affect their ability to maintain services and to provide the highest quality and safest possible care. The state's hospitals should not be further stressed to balance the state budget.

We urge you to reject the Section 10 of SB 484, An Act Concerning The Governor's Revenue Plan which would impose a 3 ¼ percent Hospital User Tax on Connecticut Hospitals. Thank you for your consideration of our position.